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## BOOK REVIEWS AND NOTICES

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*The Value of Organized Speculation.* By HARRISON H. BRACE.  
Boston and New York: Houghton Mifflin Co., 1913. 8vo,  
pp. xii+290. \$1.50 net.

This book constitutes the fourteenth contribution to economic literature, listed among the Hart, Schaffner & Marx prize essays. After a brief introduction, largely historical, the essay is divided into six main sections or chapters, namely: "Features of Organized Speculation"; "The Effect upon Prices"; "Prices (Continued): Some Fallacies Considered"; "Indirect Effects"; "Moral and Social Value"; and "The Alternative." The last dozen pages contain a summary of the author's conclusions, together with a brief statement of present legislative tendencies. The first chapter, as the topic would indicate, is entirely descriptive; and while small room for originality was here afforded, it constitutes an excellent statement of the leading features of speculation as carried on at the exchanges.

The second chapter begins with a study of fluctuations in prices. Organized speculation, it is found, tends to increase the minor or "choppy fluctuations," "but as regards the large swings it has the opposite effect and tends to bring the limits of such fluctuations together" (p. 55). The selling of "paper representatives of commodities," that is, selling short, is strongly defended. Economic writers are taken to task for failing to point out that "commodities other than gold may have paper representatives, and that a promise to deliver commodities may have just as natural a use in business as a promise to pay money" (p. 59). It is further asserted: "There cannot be freedom in finance unless a business man has the right to accept the promise of another to pay money and to negotiate the same; and there cannot be freedom in commerce unless a business man is allowed to make and accept promises to deliver commodities and trade in them" (p. 60). "In the same sense," we are told, "that the bank is the highest evolution and development of the monetary system, so the exchange is the highest evolution and development of the trade in commodities and securities" (p. 60). In order to have a two-sided market, it is necessary to permit a man to sell before he buys as readily as he buys before he sells. Not to permit this, it is pointed out, would be to compel all speculators to be bulls,

and this state of affairs is disastrous, as prices will be bolstered up until they fall with a crash. By the plan of short-selling this crash is largely avoided, or at any rate, its severity is lessened; for, "in the early stages of the boom, the short-seller cuts off what might have developed into great speculative excitement; and later, when a decline has resulted, he assists in stopping it by his purchases to cover" (p. 65).

While speculators no doubt have it in their power, temporarily at least, to depress prices, their general influence is in the opposite direction, for the writer finds "that speculators are naturally bullish, and that the demand made by them for contracts is far greater than the supply that they bring into existence" (p. 93). The activity of brokers tends also to raise prices, since it is to their interest "that prices be moving upward, as advancing markets mean large trading and speculation with numerous commissions; and their circulars, personal solicitations, and advice help to increase the speculative excitement and advances in price" (p. 93).

Among the fallacies scrutinized, the generally prevailing delusion that speculation, instead of advancing prices as above indicated, tends to depress prices of the commodities dealt in, is first considered. The author thinks this latter idea is probably due to the idiom of our speech, in that transactions upon the exchanges are always spoken of as "sales," thus obscuring the fact that every transaction also involves a purchase.

The argument of the anti-optionists, that while the public are usually bulls, the professionals are more likely to be bears, is partly conceded by the author; but he does not believe "that the seller has any special facilities to tire out the buyer, or that there is any such strength in the position of a bear in the market that he has any preponderating influence" (p. 115). The statistical proof often resorted to by enemies of the exchange, based on the coincidence of the beginning of organized speculation with the fall in agricultural prices from 1873 to 1897, is met by pointing out that commodities not dealt in upon the exchanges also fell in price, and further that since 1897 the very commodities mostly dealt in by speculators have experienced the greatest rise. The close correspondence between the visible supply of a commodity and its price upon the exchange is strikingly shown by the use of a number of diagrams, tending to prove that the laws of supply and demand are in general in full operation under the system prevailing. On this point the author concludes: "The more the problem is examined, the stronger becomes the conviction that these leaders are but a part of the vast mechanism, and that they can only succeed by conforming

their operations, in the broad outlines at least, to the legitimate tendencies of the market" (p. 138).

Among the indirect effects of organized speculation, that of a continuous market is especially emphasized. The value of a continuous market is strongly brought out by comparing the movements of the markets for commodities and securities traded in by the exchanges, with price movements of real estate, which is not, and cannot be dealt in like wheat, for example, since it cannot be graded and handled in the same way. In the latter case, "when the advance has spent itself, we find that frequently there will be a sudden change and the property becomes unsalable" (p. 141). The value of organized speculation in providing a means of "hedging" which can be used by the miller and others to insure themselves against losses, is well stated. Even the farmer, it is pointed out, can, if he so desires, use the exchanges directly by selling his wheat in December, say, for May delivery, at a price some six cents above cash or spot quotations, and in this way go into the warehousing business on a small scale.

Under "Moral and Social Value" it is pointed out that speculation offers a legitimate and socially beneficial activity for the natural risk-takers, who, in the absence of this field for the exercise of their natural bent and ability, would resort to outright gambling. That organized speculation as it exists today is not without its evil side or dangers is fully conceded. One of its main dangers is that it draws numberless individuals into its meshes who are not qualified by natural aptitude, training, or means to belong to the speculative or risk-taking class. "Organized speculation as it exists is a terribly persuasive power which unsettles the judgment even of intelligent persons, and, appealing to certain common weaknesses of human nature, leads thousands every year to the ruin of a gambler's life" (p. 186). In the matter of deceit and bluster which is present to a regrettable degree in practically all lines of business, the author finds "that the wrongdoing in organized markets is greater before the contract is made; but, after a contract is entered into, the exchange members are more scrupulous than business men upon the outside" (p. 198). Speculative exchanges, however, are going through a natural evolution and "there have already been reforms which are proceeding in a regular evolutionary order to right abuses" (p. 200).

In regard to "The Alternative" the author concludes that the abolition of short-selling and organized speculation would result in a crippled or restricted market. It would lessen the chances of a small

or moderate-sized business, since such business could not insure its profits by hedging as is now done. The only ones capable of bearing these risks themselves would be the "large companies or trusts which adopt the quite different method of guarding against risks by controlling the processes of production and the making of prices" (p. 250). The individual with risk-taking propensities, as previously intimated, would resort to outright gambling, "whereas, by speculating upon the exchanges, even considering them at their worst, he would be helping to bear the necessary risks of fluctuating values" (p. 251). Unorganized speculation is more demoralizing than organized. Lastly, any attempt to abolish speculation or to remove its essential features is sure to result in failure through evasion. Hence we must retain the essential features of exchanges, but "eliminate, so far as possible, the uncommercial practices which have such unwelcome prominence in large commercial exchanges. Institutions which have only the outward forms of exchanges should be dissolved or made into true exchanges, . . . amateurism, the greatest cause of the evils of organized speculation, should be eliminated, even at the expense of much effort on the part of legislatures and the exchanges themselves" (p. 251). "The best method to pursue in discouraging the illegitimate use of organized speculation is to encourage its legitimate use" (p. 250).

In view of what was said at the beginning of this review, it is perhaps needless here to add that the book is well written, and is worthy of consideration as a scholarly study of organized speculation. In its reference to foreign exchanges it is a little disappointing. The information given in regard to them is extremely meager, and hence the lessons drawn from them are not very illuminating. While a judicious attitude toward the subject has on the whole been maintained, it is hard not to feel that in certain portions of the book the author has been led by his interest in the institution under consideration and his appreciation of its value, to minimize its shortcomings. Yet in other places the evils are frankly admitted and discussed.

The explanations in general and the parallels drawn between features of the exchanges and other lines of business activity are strikingly original and enlightening, and must appeal not only to those versed in economic literature and problems of the market but to all intelligent readers. The broad application of the hedging principle is set forth with special force and clearness.

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